Samsung Note 7 - An Unprecedented Recall That Created History: Exploding Phones Recovered – Exploded Trust?

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Abstract

This study aims at reviewing the literature to explore the reasons and rationale of buyer's preference of one particular brand over the other one in high-tier smart phones industry. This shall be linked to the recent issues faced by Samsung concerning the Note 7 explosions, causing a great monetary and a greater non-monetary loss the global electronics giant. Studying and building Note 7 case adds more variables to the initially reviewed literature regarding brand preferences of consumers in high-tier smart phones industry. Determinants and drivers of decision-making and preferences were explored using the Systematic Literature Review approach. Thereafter, customer dissatisfaction variables from Note 7 incidents were explored and analysed. Two equations were added up to generate and extend findings. Three major factors were identified including Quality, Consistency and Care for Customers. The concluded outcome of the study limited to be utilized primarily for studying high tier smart phone industry but a glimpse of it can also be shadowed upon high tier and niche market brands. This paper is the first of its kind case study on a first of its kind incident that happened with Note 7 – one of the most talked about cases of 2016 and can be used as stepping stone for further analysis into this or similar cases.

Keywords: Buyer Preferences, Consumer Behaviour, Mobile Phone Industry, Note 7 Explosion, Samsung Case

INTRODUCTION

The case under consideration is a detail systematic analysis and a literature base review of an unprecedented recall in the history of mobile phone manufacturers. For the first time in the history of mobile phone industry, mobiles started exploding causing a tremendous harm to human lives. This case is aimed at identifying and addressing the core need of the consumers that is hit by this mishap – the story of 2016 that will be talked about for a long time (Alshurideh, Bataineh, AAlkurdi & Alasmr, 2015).

Samsung’s Note 7 (later referred to as Note 7) was a unique mobile in its own category;
aimed at the most niche category catered to by Samsung, Note 7 was a flagship product of Samsung – aimed at retaining the differentiation conscious consumer base. Other than the desired target group, mobile phone users tagged Note 7 as the ultimate phone because of its attractive features and a reasonable price. When the reasonable price is said, it implicates a competitive priced compared to the base of similar phones from relevant competitors in the market (Falayi & Adedokun, 2014).

The first in a category is always unique and mobile phone sectors have held many categories; some cases to be talked about in the years and decades to come will be:

- Forward Integration of OEMs – HTC producing mobile phones
- The Greatest Giant falls asleep – Good bye Nokia
- Advancements in Technology – Samsung vs. Apple

However, none of these mentioned cases causes any human harm – they were all about competition, industry and growth. The case of Note 7, on the contrary, is unique as it causes, and it has in the past, caused human injury and critical close-to-death situations. Never in the history of mobile phones, thus far, have the transportation authority globally declared a mobile phone “ban to use” onboard (Karjaluoto et al, 2005). A cell phone that targets very niche Gentry has no reason to lapse on quality because of its extra cost of quality that is always charged. Thus, this case gives directly to the case overall.

There is a definite need for such a research that compiles data from various sources – published or otherwise – and adds them to the similar category of instances in the past, devices solutions and strategies on how such problems can be prevented, and in case, how such problems and issues can be resolved. Samsung’s current strategy is restricted on media channels – to avoid questions because “no question implies no answer”. Researches similar to this are desirable to understand market dynamics, especially in the contextual frame of reference (Rahim et al, 2016).

The objectives of the present study include:

- Research data gathering and analysis
- Identifying the existence of similar data
- Exploring newer variables and incorporating their existence to the current literature review.

This research was influenced by the lack of funds and lack of time – availability of the same would have one exploring much more advanced level variables in the business outcome.

LITERATURE REVIEW

The smartphone is the latest technology and innovation embedded form of mobile phone. This smartphone is capable of accessing audio – video files and photos, managing personal data files and providing internet connectivity using various platform and application, rather than just sending and receiving voice, picture and text messages and communication through audio calls that were the basics of any ordinary mobile phone set (Tech Savvy Session, 2016). According to a safe estimation, revenue of over 35 billion USD to be generated by 2014 as during late 2000 at least 300,000 applications for mobile phones were developed (O’Brien, 2017). The technological
advancement and fast pace changes in mobile phone features have been attracting new members to join the smartphone user base globally, thus creating a consistently growing demand for the smartphones. The most renowned brands include Samsung, LG, HTC, Huawei, Nokia, Apple, Motorola, and Sony (Sata, 2013). Nevertheless, the Top of Mind Recall for the smartphones reflected a strong competition between Apple’s iPhone and Samsung’s Galaxy (Azad & Safaei, 2012).

Since this case is to highlight the possible issues with the Samsung Note 7’s burning and its recall by the company, it is vital to understand the initial factors that affect the buying decision. The Conceptual Framework is being adopted from an existing literature from the study carried out by Kaushal and Kumar (2016). The idea of incorporating this research is to research, analyse and bring in add-on variables for developing an understanding of consumer decision-making process for buying the smartphone and, as discussed earlier, to identify variables beyond and to visualize, analyse and conclude the impact created by Samsung’s quality issue on the elements that make or break a brand. The factors emphasized include Price, Product Features, Relative Advantage, Social Influence, Brand Name, Convenience, Dependability and Compatibility (Sohail & Tanveer, 2015).

**Price**

According to Blackwell, Miniard, and Engel (2012), the price is the determinant of the value of goods and services in consideration for the exchange of its own between the seller and the buyer. Every customer uses a different set of factors based upon his motivation, choices, requirements, lifestyle while making a purchase decision. As the perception goes, higher the price better the quality, the customer tends to pay a higher price for the product having higher association attached to it. Based on the features, brand and categories, smartphones are available at a low as well as high price range (Karjaluoto et al., 2005).

**Product Features**

Product Features are the characteristics of a product to provide the desired degree of customer satisfaction when its owner actually utilizes it. From the smartphone’s aspect, these features include both the hardware as well as programming/application – the software, where the hardware referring to physical appearance - the body material, texture, dimensions and available variants and the software side covering the operating system, internal memory space and applications that help the smartphone in performing various tasks (Lay-Yee, Kok-Siew & Yin-Fah 2013).

**Relative Advantage**

Relative Advantage refers to the level of enhancement and better performance a product is perceived to provide in comparison to its alternate. It is also affected by the individual’s inclination and desired level towards the desired feature (Rahim, Safin, Kheng, Abas, & Ali, 2016).

**Social Influence**

The impact of an individual’s beliefs and attributes upon the other person’s behaviour is referred as social influence. In today’s fast-paced world, our buying decisions are influenced
by various available sources including the electronic media, social media and ease of readily available information (Rahim, Safin, Kheng, Abas, & Ali, 2016).

**Brand**

According to Keller and Kotler (2016), with its unique features and attributes including the name, symbol, packaging etc. becomes a valuable asset for the company and creates a bond with its users ensuring it is much more than just a service or a product. Similarly, this extends the possibility of influencing the satisfied customers in generating new customer base through referrals for the brand (Azad & Safaei, 2012). The marketer aims to generate customer retention and repeat sales by incorporating the sense of brand equity – a well-perceived set of notions identified on the consumers’ level of attachment and usage with the brand (Kotler & Armstrong 2013).

**Convenience**

Convenience refers to the ease and possibility of using the smartphone at the need of time and desire without being bound by having it attached to the Personal computer since most of our everyday business and financial activities are performed on the go (Hooi Ting et al, 2011).

**Dependability**

In the present years, the mobile phone has become an integral part of our everyday life be it our social or corporate activity ranging from managing our daily to do list or taking pictures, playing video games. The presence of our hand phone and a number of daily hours spent on it reflects our dependability on smartphones and highly impact the buying decision (Ayub, Hamid, & Nawawi, 2014).

**Compatibility**

The aspect of compatibility covers the ease of use and its connectivity and performance with the software, applications and peer devices. The compatibility has a vital impact on smartphone buying behaviour as in today’s innovation driven life use of multiple devices is common (Anam, 2014).

![Figure 1: (Factors Affecting the Purchase Intention of Smartphone)](source: Kaushal and Kumar, 2016)
Additional Reasons

Battery

Mobile phones these days have become more than just communication devices, due to their enhanced dependability and connectivity towards social, professional and personal forums and applications high power consuming from there has been an increasing demand of long lasting battery of smartphones i.e. phone batteries giving longer usable hours without being charged (Ferreira, Dey, & Kostakos, 2011).

Samsung Note Series & Samsung Note 7

Samsung’s Galaxy Note generally termed as Samsung note is the corporate phone series launched in 2011 termed as “Phablet” aimed to provide the big screen with a 5.3 inches experience that caused a breakthrough and extreme level of acceptance as most of the cell phone producers were focused on smaller screen size and compact for easy placement and carrying. Alongside offering the bigger screen size, it provided with S-pen the new name given to the old stylus. Since its launch, every year a newer edition was introduced i.e. Note II, Note III till Note 5 with bigger screen size and enhanced features (Velasco, 2016).

In August 2016, Samsung launched Note 7 (skipping the Note 6) loaded with; Android Operating System, v6.0.1(Marshmallow), screen size of 5.7 inches, processor type - Octa-core (4x2.3 GHz Mongoose & 4x1.6 GHz Cortex-A53), 12 Mega Pixel, f/1.7, 26mm, phase detection autofocus camera, Non-removable Li-Ion 3500 mAh battery with phone available in various colours (GSMArena, 2017).

The First Explosion

The exact date and reason for the explosion has not yet been revealed but according to some sources “Samsung was delaying the shipment of its NOTE 7 series claiming to conduct some safety tests pertaining to its product quality” and the explosion is now being referred to an issue with its “battery cells” and being produced by Samsung’s subsidiary. The first explosion reported on social media was in the last week of August whereby consumers in various markets (Payne, 2017) revealed one after the other, several pictures of exploding phones.
**Samsung Fire Fighting Approach**

The United States Consumer Product Safety Commission that also advised the owners of Note 7 to shut down and hand them for an exchange to the company officially recalled Samsung Note 7 on September 12th. The very next days later a newspaper advert was released by Samsung informing its customers about providing a software add on to ensure that the phones will not be charged more than 60% to avoid the heating and burning issue (Statt, 2016).

**Fire Fighting Backfire**

After the fault came known to the masses, Samsung officially requested the customers to switch off their gadgets. On an aggressive turnaround by the customers, Samsung recalled close to 2 million handsets during September and October, on a commitment that new phones shall be supplied to the customers – and it was assumed that the newer phones would not explode anymore. The customers were given replacement phones that were of a lesser league compared to the Note-series (Maccarty, 2016).

However, on contrary to the expectation, there started news of the Note 7 catching fire again during charge. A number of such instances where quoted, while one was interesting as the phone caught fire while being on the charge in the car (Mills, 2016). This incident of on-car charging was in all likelihood the major turnaround in the callback case because car chargers neither have a lot of electric charges nor charge at a very rapid speed – rather it is mostly quoted that car chargers are slower to charge (Sujata et al, 2015). Nevertheless, a battery explosion during that low and slow charge was the alarming sign. Thereafter, a great audit, evaluation and investigation took place by a steering committee that was made for this sole investigation. The final decision was made against the design of the product, which was concluded to be of inferior quality (Kharpal, 2016).

**Final Strategy**

In the early dates of October, Samsung announced to have stopped the manufacturing of Note 7 for “betterment of the customers”. This announcement followed that no further action to be taken until further notices (Uddin, Zahan Lopa & Md, 2014). Here is a major standpoint where the indecisive strategy and time-consuming final decision actually tested the customer patience because carrying Note 7 caused humiliation as it was banned from public places, transportation, airports, etc. The next press release launched on 17th of October gave the final verdict i.e. compensating the customers of Note 7 by offering them the money they had invested in the high-tier phone – the offer being either take cash back or take S7 Edge along with cash or cash equivalent voucher (Mobile Nations, 2017).

**Category Closures**

Research suggests that Samsung decided to give more priority to customers by putting a halt to the manufacturing of Note 7 – after about 90 incidents were reported – to avoid further losses or mishaps. The real question mark now that stands to Samsung is that would Samsung close down the “Note-Series” and focus on other tiers of the market or otherwise. For the time being, there is no sound in the market about the launch of another Note product; however, share prices have slipped following as investors are reluctant to invest – following the mishap
of the most innovative and highest price product in the Samsung mobile phone portfolio. Samsung has thereafter moved its marketing focus towards S7 and S7 edge that has always declined in terms of sales numbers. Overall, this gives a negative outlook to Samsung overall (Samuelson, 2016).

What Actually Exploded? Note 7 vs. Consumer Trust

They say numbers can be mended but trust takes ages. Sales are built over night, and brand is built over time (AP, 2016). The case of exploding Note 7 was actually the sound of Samsung losing out on the customer trust – trust is the core of any brand. There came out a story of exploding washing machines – it vanished in thin air but this gave the opportunity to competitors for creating talk ability on how much Samsung cares as a brand for the customer. Some mistakes in crisis management also did not work in Samsung’s favour (Gordon, 2016).

Will It Ever Be the Same Again?

Samsung needs to recheck the checks and balances on quality – going back to the fundamentals. This is not just one of a kind scenario that happened and will not happen again. Research suggests an RCC Cycle deal with such situation, which expands as React, Communicate and Compensation. No one can or will be able to say with complete certainty that “it will not happen again” but it is merely the RCC cycle that keeps the thoughts intact, and customers tied to the brand again. In the forthcoming chapters, there will be a detail discussion on how Samsung has failed in preventing this situation from becoming bigger than where it stands today (Jelic, 2016).

What is Next?

Samsung is a giant in itself and there are fair chances that it may be able to keep its repo, in addition, sales in various products and services. Even in the context of mobile phones, vastly the high-tier phones have lost the customer interest and focus. However, that in itself is a huge category – competing with iPhones, etc. Interesting is how Samsung will move forward. The theme is not to keep Note 7 on your table all the time to recall the disaster but really to derive the quality understanding from this chapter that will soon be history (Gordon, 2017).

ALTERNATIVES

What Was Done?

The preceding chapter discusses detail plan on how Samsung dealt with the said scenario of Note 7. This section presents a summary of the steps taken:

- Initial complaints were ignored by Samsung retailers, blaming various other factors to have influenced the burnout. As an example, CrazyDeals.ae was found blaming one customer for “misuse” of product rather than notifying the brand about this concern
- When a social media hype of the same was created, Samsung intervened with Level I tactics i.e. taking back the faulty phones, replacing them with a lower market version, and committing to the customer about a prospect replacement
- The replacement phones started shipping and distribution after a while
- One of the replacement phones burned out while it was on charge in a car – this turned
out to be the last nail in the coffin.

- Thereafter, it became a serious concern for people whereby airports, airlines, road transport authorities defied the use of Note 7. Even one of the local universities banned the usage of Note 7 and while boarding the plane, the airport and airlines staff would ask about Note 7 in possession too.

- Samsung gave a global recall offering either a complete cash back or replacement with a similar high tier S7 + voucher for the balance amount

**Other Alternatives**

This section presents other alternative courses of action that Samsung could have considered prior to making the final call. Since this is the first of its kind incident in the mobile phone sector, cases of other sectors are used as a benchmark on how brands react to such instances. Following options are based on each step from the time of product launch up to the time it was finally recalled from the market.

**Option A**

A simple Root Cause Analysis shows the flaw in quality. The first option should be to ensure that the product going in the market is of supreme quality – a delay in launch should be bearable than obeying the deadline and compromising quality check measures.

**Option B**

The first cry of exploding Note 7 should have been taken seriously and not just the call back for repair, but the sales should have been a halt to prevent further loss.

**Option C**

Once the fault was known to have re-occurred, Samsung should have gone an extra mile to compensate customers beyond just a mere refund. Generally, brands with giving a certain incentive to the customer – a discount voucher or a free phone or a free accessory – if not anything, at least a token of thanks or a giveaway to show the customer a sense of belonging.

**Strategy on Proposed Alternatives**

The common pattern in all these options is a loss-minimization strategy. Mitigating the risk at each step by creating an option of what could have been, and would have led to reduced impact than what was felt at the end of the story, giving a perfect take off point to iPhone for launching the new iPhone 7, and making a pathway for Google to launch its Pixel phone. The damage to numbers can be dealt with sooner than not, but the damage to reputation is difficult-to-mend.

**Why Samsung’s Actions were Criticized?**

Samsung’s actions were criticized across the world, coming from different background and mindsets such as entrepreneurs, marketers, quality gurus, and other people from various leagues. Reasons being the foundation of the above-mentioned alternatives/options:

- Inappropriate behaviour from forwarding chain partners i.e. retailers
Samsung took too long to think, audit and act – many incidences could have been prevented. Initially, about 32 incidences were reported when Samsung first took notice and until the end of this, about 90 cases were reported.

Samsung kept blaming the battery manufacturer for the fault while it was the brand’s responsibility to have accurate checks and balances on the quality of products. For example, in this case, Samsung held the responsibility of checking the batteries prior to placing them in the most prestigious product of its category.

Once customers had suffered – a phone worth approximately $800+ did not perform as much as it should have done rather customers were left with a lower category. A-series replacement phone – and then handed over the initial price, and customers deserved a better compensation package than just money back.

A one channel mode of communication i.e. the press release on websites primarily. This is a good strategy to maintain consistency in communication but also shows that there is lack of “media facing capacity” in the marketing and corporate communication function. The fear of media trial is something that keeps a brand away from customers whilst the brands that are willing to take on customer queries and complaints and act upon them, tend to take the brand loyalty to a very high level. A classic example of the same is McDonalds Open Kitchen Campaign – a statement that we are open for public audit and media trial, willing to show processes and functions to every consumer.

RECOMMENDATIONS

Flaws and Gaps

Flaws are classified as classical mistakes, while gaps are the differences between theory and practices. For the consideration of this discussion, flaws and gaps are considered synonymous. Derived from the criticism mentioned in the previous chapter, the following are the flaws and gaps identified in Samsung strategy towards systems management:

- There seems an apparent gap between customer to retailer communication and what the retailer communicates to the brand.
- Not having a contingency plan is another major flaw in strategy because long-term thinking involves catering to a number of ifs and buts – even if something has not happened. As they say, if something has happened, it can happen again and if something has not happened, it can definitely happen because there is always a first time …
- It is a standard practice that brands never take responsibility of a mishap with the product but a standard apology is a standard way to go about it – blame games are decent yet outdated strategy to deal with situations.
- The strategy of money back does not add up in modern times where seller markets do not prevail anymore – money back merely covers the price of the faulty phone but the food for thought is the opportunity cost and the time and suffering that customers had to bear, remains unaccounted for.
- Closing doors for communication are not considered the best technique of crisis dealing today – despite that, it keeps information symmetric via the usage of a single communication channel. Brands today keep multiple channels of communication to keep the interaction an ongoing process with the customers. The phenomenon is called “VOC” i.e. Voice of the Customer. There are systems and techniques used to ensure that the information is symmetric and synchronized amongst all channels delivering information. In Samsung’s case, there was strictly one channel of communication and no one was to say anything beyond those words.
Solution

A researcher psyche is to solve the problems in an effective manner because many times, biggest of problems have simplest of solutions. Following the critics and hereby-identified flaws and gaps, following are the suggested solutions for this issue:

Defining SOPs for Retailers Especially with Regards to VOC

- Brand has the right to know and retailers should not deprive a brand of this right because feedback is what will lead to improvement

Plan B & What-if

- Fire extinguishing practices are done to ensure that in case of fire, people know what needs be done. Similar brands need to have a fall back strategy

Modern PR Practices

- The nature of reaction implicates outdated PR practices that need to be updated because the consumer today is no more the consumer who was there some years back

Customers Perception is How We Make them feel!

- Customer perceptions are derived out of how brand shows the care and concern. A simple give away as an acknowledgement of the suffering may have coasted less in money and would have revived the loss repo to a greater deal

Open Public Platforms for Interaction

- Listening to the customer, getting closer to where the customers are and being in their shoes are “PR stunts” that take the brand a long way. Restricting communication channels restricts the hearing capacity, doesn’t reduce the noise

Is it too late?

It is never too late – until it is actually too late and not all is lost for Samsung so far. Marketing knowledge reveals that the mid and low tier Samsung phones are still selling as they were previously; the concern falls on the high tier phones. Current Samsung strategy is to put behind the Note 7 case and focus all attraction S7. This strategy has thus far failed; primarily, because the high-end consumer is focusing towards choices that have a better reputation in terms of quality, consistency and care for the customer. Thus, these three variables should be the prime target for Samsung to revive its position in the high-end consumer market. The starting point here should care for the customer because that is what will entice the customer to try again – so how about offering a voucher or a deal, or something to make the high-end customer comes again.

REFERENCES


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